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**CENTRAL INTELLIGENCE AGENCY**

State Department review completed

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2. Cabinet discussions continue in Indonesia:

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 Premier-designate Sartono of the Indonesian National Party is continuing discussions with the Masjumi (a Moslem Party and the major element in the former government)

and with the other parties that supported the former government in an attempt to discover a basis on which to form a coalition cabinet. The question at issue is whether the Indonesian Nationalist Party will modify certain of its leftist policies with a view to enabling the Masjumi, the majority party in Parliament, to agree to participate in a new government. If these two parties cannot reach an agreement, the Indonesian Nationalist Party may fall back on a cabinet based on a broad party grouping, excluding the Socialist and Communist parties and the Masjumi.

Comment: A cabinet formed by the Indonesian Nationalist Party without the relatively conservative influence of the Masjumi may lead to either a highly unstable or a leftist government in Indonesia. Responsible Masjumi leaders are aware of this danger, however, and are therefore believed to be willing to make considerable concessions to the Indonesian Nationalists.

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4. Current Egyptian position on the Anglo-Egyptian treaty issue less extreme: ?

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In a recent discussion with Assistant Secretary of State McGhee in Cairo, Egyptian Foreign Minister Salaheddin reviewed Egypt's position regarding the Anglo-

Egyptian treaty issue. In the clearest exposition to date of the Egyptian side of the controversy, Salaheddin stated that (a) Egypt would admit British forces in wartime but not in peacetime, (b) the evacuation of British troops from the Suez Canal base should take place with a year

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to eighteen months, allowing time for the training of 10,000-20,000 Egyptian combat troops and 400 pilots to take over the defense job from the UK, and (c) the UK should evacuate the Sudan in two or three years, since the Sudan issue is inextricably tied to the question of British evacuation of Egypt. Salaheddin also contended that the Middle Eastern countries should have the first word regarding the defense of their own territories. He asserted that Egypt would maintain the Suez base until it was needed by the UK in wartime and that the final result would depend to a large extent upon the amount of military and economic aid given Middle Eastern countries.

Comment: An Egyptian position as outlined above by Salaheddin with no further concessions reduces the prospect for success in the Anglo-Egyptian treaty discussions. Two aspects of the Egyptian position -- which is held both by the government and the general populace -- are unrealistic: (a) Egypt cannot adequately maintain the Suez Canal base, and (b) the majority of the Sudanese political parties, while wishing for independence, oppose any kind of association under the Egyptian Crown.

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WESTERN EUROPE

6. Italian Communists might modify their public stand against NATO:

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[REDACTED] In a recent statement, Pietro Nenni, leader of the philo-Communist Italian Socialists, termed the Atlantic Treaty "a necessity under present conditions" and pleaded merely for "more cautious Italian participation" in the treaty organization. Nenni's changed attitude toward the NATO is regarded in some quarters as part of a new Communist "peace" offensive that will be further elaborated at the Communist Party congress opening in Rome 3 April.

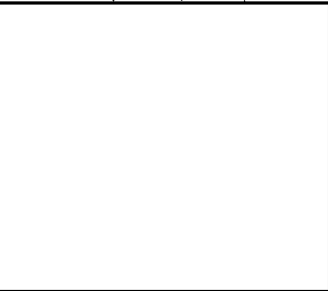
Comment: This is the first indication that the Italian extreme left may be considering an abatement of its attacks against NATO. Such a development could be part of the Communist tactic of confusing and dividing pro-Western forces in Italy. On the other hand, the Communists may realize that their policy of opposing NATO has failed to hinder effective Italian participation in Western Defense planning. Italian Communist attempts to stage political strikes in the past, for example, in connection with Eisenhower's recent visit to Italy, were not particularly successful.

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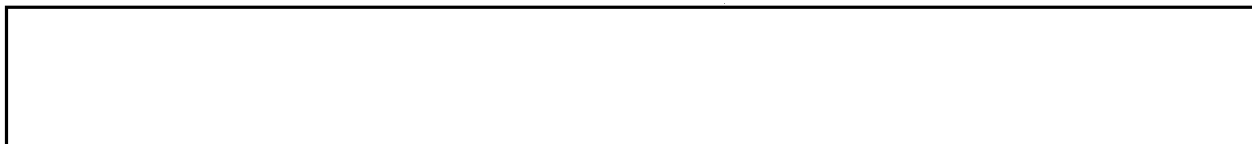
7. Madrid students protest streetcar fare policy:

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Some 1,000 University of Madrid students are reported to have attempted to march to the City Hall on 2 April ostensibly in order to protest against restrictions on the use of their streetcar passes. Some of the demonstrators voiced their discontent with the high cost of living. Following the arrest of three leaders, the students dispersed

quietly and no serious injuries were reported.



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Comment: On 23 and 24 February, a similar protest by University of Barcelona students heralded the city-wide streetcar boycott and general strike which had Barcelona in a turmoil during the first two weeks of March. At this time, it was predicted that the success of the Barcelona demonstrations and the apparently conciliatory attitude of the government might encourage Spaniards elsewhere to voice their discontent against increasing economic hardships. The calling of a cabinet meeting to consider the cost of living problem reveals the government's growing apprehension that such incidents might spread.

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